

## Message Text

UNCLASSIFIED

PAGE 01 BUENOS 07903 01 OF 02 220824Z

ACTION EB-08

INFO OCT-01 ARA-14 IO-14 ISO-00 STR-05 TRSE-00 CIAE-00

INR-07 NSAE-00 ITC-01 PRS-01 L-03 AGRE-00 SS-15

NSC-05 /074 W

-----093528 220849Z /12

R 211525Z OCT 77

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 2852

USDOC WASHDC

INFO USMISSION GENEVA

UNCLAS SECTION 1 OF 2 BUENOS AIRES 7903

USMTN

E.O. 11652: N/A

TAGS: ETRD, EFIN, AR

SUBJECT: CHANGES IN IMPORT TARIFFS, EXPORT TAXES, AND  
EXPORT FINANCING LEVELS AND INTEREST RATES

REF: BUENOS AIRES 8285 12/22/76

1. LIBERALIZATION IMPORT TARIFFS AND EXPORT SUBSIDIES  
MENTIONED REFTEL CONTINUING IMPORT RESOLUTION 754 OF THE  
MINISTRY OF ECONOMY DATED 9/5/77 LOWERS TARIFFS ON  
TRACTORS AND THEIR PARTS TO 30 PERCENT - 40 PERCENT  
RANGE FROM 50 PERCENT - 65 PERCENT RANGE. ALSO,  
THE BAN ON IMPORTING REGULAR TRACTORS UP TO 120 HP  
AND CATERPILLAR TRACTORS BETWEEN 12 AND 85 HP HAS  
BEEN LIFTED. IN ADDITION, MANY TYPES OF PULP AND  
PAPER LOWERED FROM 70 PERCENT TO 55 PERCENT LEVELS.

2. RESOLUTION 867 OF THE MINISTRY OF ECONOMY DATED  
9/23/77 LOWERED IMPORT TARIFFS ON 182 PRODUCTS INCLUDING  
GLASSWARES, COPPER PRODUCTS, DUCTS AND  
OTHER ALUMINUM PRODUCTS, PLASTICS, CORK, CARBIDES,  
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PAGE 02 BUENOS 07903 01 OF 02 220824Z

HAND TOOLS AND OTHER METAL IMPLEMENTS, ZINC AND OTHER  
SINGLE METAL PRODUCTS, ELETRIC MACHINES AND PARTS,  
CARTS FOR INDUSTRIAL USE, WHEELCHAIRS, AND OPTICAL  
INSTRUMENTS AND MACHINES. THE MAXIMUM TARIFF  
PROTECTION FOR THESE PRODUCTS HAS BEEN REDUCED FROM  
95 PERCENT TO 65 PERCENT AND THE MINIMUM FROM 10  
PERCENT TO 5 PERCENT. MOST OF THE NEW TARIFFS ARE

IN THE 50 PERCENT RANGE.

3. OTHER DECREES HAVE ELIMINATED TARIFFS ON IMPORTED FERTILIZERS WITH THE EXCEPTION OF A 15 PERCENT TARIFF ON UREA, AMMONIUM, NITROGEN MIXTURES, AMMONIUM CHLORATE, AND MANURE. ALSO, IMPORT TARIFFS ON

VACCINES AGAINST FOOT AND MOUTH DISEASE AND OTHER CATTLE PARASITES HAVE BEEN REDUCED FROM 65 PERCENT TO 15 PERCENT. OTHER PRODUCTS WHICH HAVE HAD TARIFFS REDUCED FROM 50 PERCENT - 95 PERCENT RANGE TO 5 PERCENT TO 15 PERCENT RANGE INCLUDE DAIRY PRODUCTS, PROCESSED RICE, COOKING OILS, MARGERINE, CHOCOLATE AND OTHER FOODS AND BEVERAGES AS WELL AS CIGARETTES AND ETHYL ALCOHOL. TARIFFS ON HYDRAULIC CEMENT HAVE ALSO BEEN REDUCED FROM 45 PERCENT TO 5 PERCENT.

4. REGARDING EXPORTS: RESOLUTION 800 OF THE MINISTRY OF ECONOMY DATED SEPTEMBER 8, 1977 ABOLISHES ALL TAXES ON GRAIN EXPORTS (WHEAT AND RICE TAXES WERE LIFTED LAST YEAR AND THIS MEASURE IS EXTENDED TO ALL GRAIN PRODUCTS - BARLEY, RYE, CORN SORGHUM, ETC.) THESE MEASURES WILL TAKE EFFECT DECEMBER 1ST FOR CORN, SUNFLOWER SEEDS AND OTHER GRAIN CROPS AND MARCH 1ST FOR WINTER GRAIN CROPS SUCH AS BARLEY AND RYE. ALSO, THIS RESOLUTION HAS LIFTED UNCLASSIFIED

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PAGE 03 BUENOS 07903 01 OF 02 220824Z

ENTIRELY THE BAN ON EXPORTING OILSEEDS. SUNFLOWER SEEDS, AND PEANUTS WILL HAVE A 10 PERCENT TAX, WHICH WILL BE ELIMINATED FOR PEANUTS DESTINED FOR HUMAN CONSUMPTION. THE NEW TAXES ON FLAXSEED EXPORTS TAKE EFFECT DECEMBER 1ST AND MARCH 1ST FOR THE OTHER TWO SEED VARIETIES.

5. RESOLUTION 798 OF THE MINISTRY OF ECONOMY DATED SEPTEMBER 8, 1977, EFFECTIVE NOVEMBER 1ST IMPOSES A 5 PERCENT EXPORT TAX ON UNPROCESSED AND/OR PARTIALLY THREADED WOOL BUT PROVIDES FOR A 5 PERCENT EXPORT SUBSIDY FOR COMBED AND CARDED WOOL, 10 PERCENT ON YARN, 15 PERCENT FOR WOVEN FABRIC, 25 PERCENT FOR WOOLEN CLOTHING, AND 20 PERCENT FOR SCARVES, BLANKETS, AND SHAWLS.

6. IN ADDITION TO THE ABOVE TARIFF AND TAX ADJUSTMENTS, CHANGES HAVE ALSO BEEN MADE IN THE LEVELS OF PRE EXPORT FINANCING AND INTEREST RATES. UNDER CENTRAL BANK DECREES EFFECTIVE OCTOBER 1, 1977, EXPORTS HAVE BEEN

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PAGE 01 BUENOS 07903 02 OF 02 220827Z  
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UNCLAS SECTION 2 OF 2 BUENOS AIRES 7903

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DIVIDED INTO FOUR CATEGORIES FOR FINANCING PURPOSES INSTEAD OF THE PRIOR ARRANGEMENT OF THREE LISTS. THESE ARE CAPITAL GOODS, DURABLE AND SEMI-DURABLE CONSUMER GOODS, NON-DURABLE CONSUMER GOODS, AND RAW MATERIALS AND PRIMARY PRODUCTS (FORMERLY, THE LATTER TWO CATEGORIES WERE COMBINED IN ONE LIST). FOR CAPITAL GOODS, THE PERCENTAGE OF THEIR FOB VALUE FINANCED BY PRE-EXPORT CREDITS REMAINS THE SAME (70 PERCENT) BUT THE INTEREST RATE HAS BEEN RAISED TO 55 PERCENT FROM 50 PERCENT. FOR DURABLE AND SEMI-DURABLE CONSUMER GOODS, THE LEVEL OF THEIR FOB VALUE FINANCED WAS LOWERED FROM 65 PERCENT TO 60 PERCENT AND INTEREST RATES WERE RAISED FROM 50 PERCENT TO 60 PERCENT. FOR NON-DURABLE CONSUMER GOODS, THE LEVEL OF THEIR FOB VALUE FINANCED WAS LOWERED FROM 65 PERCENT TO 55 PERCENT AND INTEREST RATES HAVE BEEN RAISED FROM 50 PERCENT TO 90 PERCENT. FOR RAW MATERIALS AND PRIMARY PRODUCTS, A PRE-EXPORT CREDIT CAN BE EXTENDED FOR ONLY FOR 40 PERCENT OF THE FOB VALUE (DOWN FROM 60 PERCENT) AND THE INTEREST RATE LEVEL ON THE CREDIT HAS BEEN RAISED FROM 50 PERCENT TO 90 PERCENT. ALSO, THE PERIOD OF

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PAGE 02 BUENOS 07903 02 OF 02 220827Z

FINANCING FOR THE FOURTH CATEGORY HAS BEEN REDUCED

FROM 180 DAYS TO 90 DAYS AND THIS CATEGORY NO LONGER CONTAINS CERTAIN PRODUCTS - SUCH AS LEATHER CUTTINGS. THE PERIOD OF FINANCING FOR THE FIRST THREE CATEGORIES HAS REMAINED UNCHANGED (360 DAYS FOR CAPITAL GOODS AND 180 DAYS FOR ALL CONSUMER GOODS.

COMMENT: IMPORTS: WITH THESE NEW IMPORT TARIFFS, MANY PRODUCTS HAVE TARIFFS OF 50 PERCENT AND BELOW AS COMPARED TO BEING IN THE 90 PERCENT - 100 PERCENT RANGE FORMERLY. THIS PROCESS IS PART OF GOA EFFORT TO FORCE LOCAL MANUFACTURERS TO BE MORE COMPETITIVE WITH FOREIGN GOODS; NEVERTHELESS, LOCAL PRODUCTS STILL SEEM TO BE PROTECTED SUFFICIENTLY. ALSO, REDUCING TARIFFS IS A WAY TO RESTRAIN INFLATIONARY PRICE RISES ON THESE PRODUCTS LOCALLY WITHOUT RESORTING TO PRICE CONTROLS. HOWEVER, THESE TARIFF AND TAX ADJUSTMENTS HAVE CAUSED A DECLINE IN TREASURY RECEIPTS, WHICH COULD INCREASE THE GOVERNMENT DEFICIT AND PROVOKE MORE INFLATION. US EXPORTERS OF SPECIALIZED FOODSTUFFS AND FERTILIZERS MIGHT BENEFIT FROM THE NEW MEASURES.

8. EXPORTS: THE REASON FOR THE CHANGES IN THE PRE-EXPORT FINANCING SYSTEM WAS THE GOA CONCERN REGARDING THE EXPANSIONARY IMPACT ON THE MONEY SUPPLY, AND THEREFORE ON INFLATION, OF THESE TYPES OF CREDITS. MOREOVER, AS A RESULT OF THE RISE IN INTEREST RATES, THE CREDITS WERE BECOMING AN INCREASINGLY HIGH SUBSIDY TO EXPORTERS IN THE FORM OF INTEREST SPREAD (I.E.) THE DIFFERENCE BETWEEN THE INTEREST COST OF PRE-EXPORT FINANCING AND THE AMOUNT OF INTEREST (CURRENTLY AROUND 200 PERCENT ANNUAL COMPOUND RATE) EXPORTERS CAN OBTAIN BY PLACING THESE FUNDS IN THE LOCAL FINANCIAL MARKET). EXPORTERS  
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PAGE 03 BUENOS 07903 02 OF 02 220827Z

NATURALLY HOWELED AT THE PROSPECT OF HAVING THEIR FINANCIAL SUBSIDY REDUCED AND MADE ALL KINDS OF DIRE PREDICTIONS ON THE ADVERSE IMPACT ON EXPORT LEVELS WHICH THE MEASURE WOULD HAVE. SINCE OCTOBER 1, THE DATE THE MEASURE WENT INTO EFFECT, INTEREST RATES IN THE FINANCIAL MARKET HAVE RISEN TO EVEN HIGHER LEVELS AND THEREFORE THE MARKET HAS COMPENSATED EXPORTERS FOR SOME, IF NOT ALL, OF THE INTEREST SPREAD LOSS AS A RESULT OF THE MEASURES.  
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## Message Attributes

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